THE

Financial health

OF MUNICIPALITIES

In the 2008 Local Government Budgets and Expenditure Review, the National Treasury analyses how municipalities have been funded since 2003/04 and how they will be funded until 2009/10. It does the same for the expenditure patterns of municipalities. This article highlights just a few important issues from a comprehensive overview.

Lack of investment in infrastructure

It would appear that municipalities cannot provide the infrastructure needed to support the promotion of economic growth. This is owing to a number of factors. First, there is evidence that services are currently underpriced – that is, fees are too low relative to the cost of producing those services, including the maintenance of infrastructure. Second, municipalities have not been using the private sector in addressing infrastructure backlogs. The level of debt is low, as is the use of public-private partnerships (PPPs) and of development charges to private developers. This suggests a lack of commitment to using private finance. The result is that municipalities do not invest in the infrastructure that would promote economic development.

Low level of borrowing

Although the number of municipalities using external loans to fund their own infrastructure programmes is increasing, only 26 of the 283 municipalities are doing so. There is also little indication that the number will grow.

Debt

The amount of debt to municipalities is not going down. At the end of 2007, R44.2 billion was owed. Metros were owed almost 35% of their total annual budgets, local municipalities 39% and districts 11%. Of the total owed, the national and provincial governments owed 20% and businesses 20%.

Dependency on transfers

Municipalities are collecting less and less of their own revenue. Service charges as a portion of own revenue have grown at the slowest rate of all revenue sources. In 2003/04, the equitable share comprised only 8.6% of municipalities' total operating revenue. Four years later, the percentage has more than doubled to 17.5%. Municipalities are increasingly becoming reliant on transfers from the national government. The National Treasury realises that the consequence may very well be that the wishes of the residents become less important while the agendas of the departments giving conditional grants gain importance.

Lack of appropriately skilled personnel

The Review is forthright in its criticism of municipalities that make senior management appointments on political grounds and not on those of skills and experience

> Evidence suggests that, in some instances, senior management positions have become tools in local power plays, with unacceptably high turnover and vacancy levels, particularly around election times. This seriously disrupts the implementation of critical reform programmes and destabilises municipal administration.

Treasury's recommendation on the way forward

The National Treasury suggests the following to promote economic development and combat poverty.

First, municipalities need to free up additional local resources to invest in infrastructure and service delivery. Because paying increased service fees may not be feasible for many households, municipalities must look at other ways to increase revenue. This will require improved efficiency and productivity in the trading services. The delivery of water, electricity and refuse collection should be managed according to sound business principles. Creditworthy municipalities must also raise loans and use PPPs.

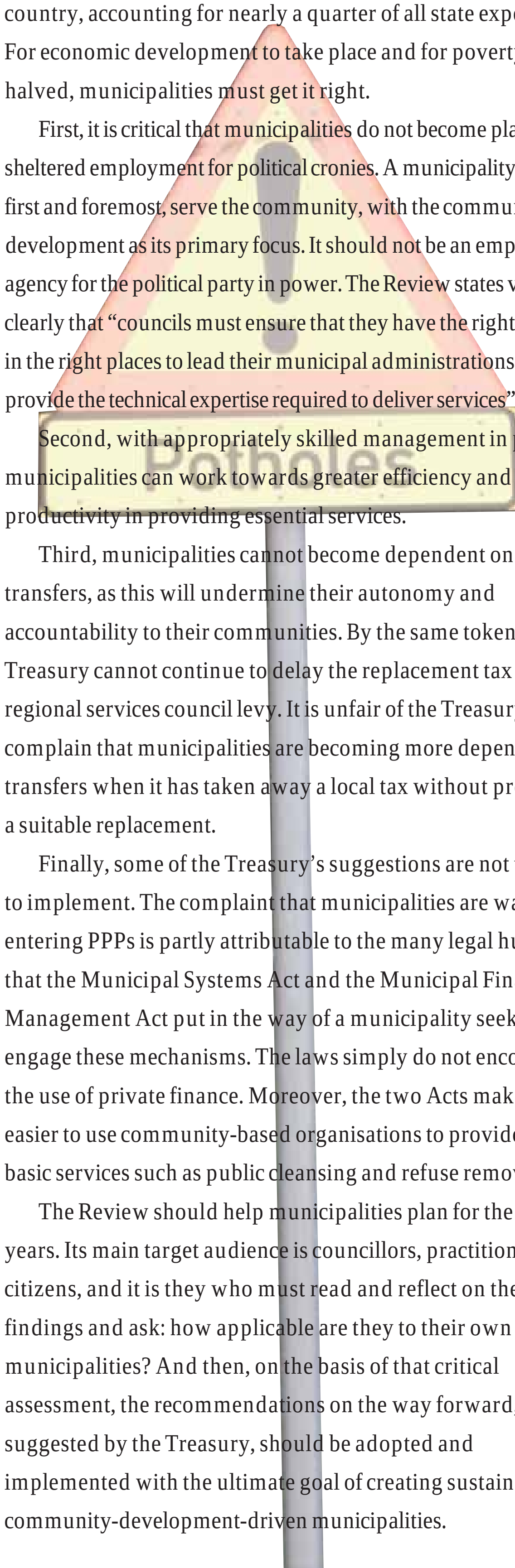
Second, to combat poverty, municipalities can generate more jobs through the way they deliver services. They can, for example, use labour-intensive capital programmes. The Review also suggests that domestic solid waste and public cleansing services provide good opportunities for using unskilled labour.

Third, there should be stability at the senior management level, and senior managers should have the right technical skills for their jobs.

Finally, the Review suggests that clearer distinctions be drawn between municipalities with differing capabilities. The more capable municipalities should have more discretion in making financial choices.

Comment

The Review is very important because it shows councils how they are faring in providing the critical municipal services of water, sanitation, electricity, refuse removal, municipal transport, roads, and community and recreational facilities. It does not paint a very rosy picture of the state of municipal finances, but suggests how to correct the mistakes there. Local government plays an important part in the governance of the country, accounting for nearly a quarter of all state expenditure. For economic development to take place and for poverty to be halved, municipalities must get it right.



First, it is critical that municipalities do not become places of sheltered employment for political cronies. A municipality must, first and foremost, serve the community, with the community's development as its primary focus. It should not be an employment agency for the political party in power. The Review states very clearly that "councils must ensure that they have the right people in the right places to lead their municipal administrations and provide the technical expertise required to deliver services".

Second, with appropriately skilled management in place, municipalities can work towards greater efficiency and productivity in providing essential services.

Third, municipalities cannot become dependent on national transfers, as this will undermine their autonomy and accountability to their communities. By the same token, the Treasury cannot continue to delay the replacement tax for the regional services council levy. It is unfair of the Treasury to complain that municipalities are becoming more dependent on transfers when it has taken away a local tax without providing a suitable replacement.

Finally, some of the Treasury's suggestions are not that easy to implement. The complaint that municipalities are wary of entering PPPs is partly attributable to the many legal hurdles that the Municipal Systems Act and the Municipal Finance Management Act put in the way of a municipality seeking to engage these mechanisms. The laws simply do not encourage the use of private finance. Moreover, the two Acts make it no easier to use community-based organisations to provide certain basic services such as public cleansing and refuse removal.

The Review should help municipalities plan for the next few years. Its main target audience is councillors, practitioners and citizens, and it is they who must read and reflect on the general findings and ask: how applicable are they to their own municipalities? And then, on the basis of that critical assessment, the recommendations on the way forward, as suggested by the Treasury, should be adopted and implemented with the ultimate goal of creating sustainable and community-development-driven municipalities.

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